ing himself with sources of information which he will use in actual business.
C. W. DOTEN.

SCHMIDT, H. *Das Eisenbahnwesen in der asiatischen Türkei.* (Berlin: Siemenroth. 1914. Pp. xii, 157. 4.50 M.)

SMITH, A. R. *Freight rates, southern territory.* Part I. (Chicago: La Salle Extension University. 1914. Pp. 336.)

THOMPSON, S., editor. *The railway library, 1913.* Fifth series. (Chicago: Donnelley. 1914. Pp. 469. 50c.)

The first 328 pages comprise articles and addresses prepared or delivered in 1913. They cover a fairly wide range of topics, among the most important of which are: the necessity of increased rates, government ownership, labor troubles, workmen's compensation, "fair play for carrying the mails," safety on railways, valuation of railroads, and the Ohio floods of 1913. The remaining 241 pages are devoted to the statistics of 1913, drawn largely from reports and bulletins of the Interstate Commerce Commission and from official sources in other countries. They are not mere reprints, but are compilations covering in most cases a considerable period of years and conveniently classified. There is much here to interest the general reader; and many of the articles, though partizan, would make valuable collateral reading for students of railway economics.
C. W. DOTEN.

WARNE, F. J. *Before the interstate commerce commission, I. & S. docket no. 333, in the matter of rate increases in official classification territory; exhibits of the Pittsburgh Coal Co. and the New Pittsburgh Coal Co.* (Washington: Frank J. Warne. 1914. Pp. 614, illus. $50.)

The railway year book for 1914. (London: Railway Pub. Co. 1914. 2s. 6d.)

Seaboard air line railway shippers guide. (New York: Wynkoop Hellenbeck Crawford Co. 1914. Pp. 560, illus.)

Terminal facilities of north Pacific ports. (Seattle: Terminal Pub. Co. 1914. Pp. 336. $2.)

Chemins de fer, mines et valeurs industrielles des Etats-Unis et du Canada. (Paris: Banque Dupont et Furland. 1914.)

Trade, Commerce, and Commercial Crises

Good and Bad Trade. An Inquiry into the Causes of Trade Fluctuations. By R. G. HAWTREY. (London: Constable and Company, Limited. 1913. Pp. viii, 279. 6s.)

In all theories of prosperity the crucial question is, What brings the period of business activity to a close? Hawtrey's theory is that a depression in trade occurs when the amount of credit in existence is more than the bankers think prudent, having regard

to their cash holdings, and they raise the rate of interest to reduce the credit. He summarizes the effects of the rise in the interest rate as follows (pp. 267-68):

> (1) The rise in the rate of interest increases the cost of holding stocks of commodities, and dealers accordingly proceed to reduce their stocks by giving fewer orders to the producers.
>
> (2) The producers are compelled to reduce their output, except in so far as they can accept orders at lower wholesale prices by sacrificing their profits.
>
> (3) The dealers with their diminished stocks and the producers with their diminished output borrow less money from the banks.
>
> (4) Thus the diminution in the excess of credit money begins, but this involves diminished balances in the control of the community generally and consequently diminished purchases of goods.
>
> (5) The diminished retail demand causes the dealers' stocks to increase again, and the dealers still further diminish their orders to the producers, who in turn borrow still less from the banks.
>
> (6) The restriction of output by the producers throws a portion of the working population out of employment.
>
> (7) The loss of employment affords an inducement to the workmen to accept lower wages.
>
> (8) As wages fall wholesale prices fall, and as wholesale prices fall the dealers are enabled to reduce their retail prices.
>
> (9) As retail prices fall the retail demand for commodities increases, and the wholesale demand increases correspondingly, so that as wages fall output increases and employment improves.
>
> (10) As prices fall the money value of goods in stock or in course of manufacture diminishes, and the borrowings from the banks are not increased on account of the increasing output.
>
> (11) When the excess of credit money has been completely removed the banks no longer need to keep up the rate of interest. The rate of interest is then reduced to the "profit rate," and the deterrent effect upon holding stocks of goods ceases.
>
> (12) At this stage part of the labour and capital of the community are still unemployed, and therefore to complete a return to normal conditions it would be necessary for wages and prices to fall further.

It will be seen that Hawtrey assigns primary importance to purely monetary influences in the determination of trade fluctuations. This, of course, is not a new position. The same idea was back of the Bank Act of 1844 of England and of much of the earlier financial legislation of other countries. But the general tendency of recent writings on crises is away from this view. More and more the monetary phenomena peculiar to our trade cycles are held to be of only secondary importance.

Hawtrey's theory agrees with Professor Fisher's that the rate of interest is the determining factor in prosperity, but the two

theories do not agree in details. Nevertheless, much the same criticisms may be directed against the former as against the latter. Without doubt, a high interest rate is a factor discouraging business activity. But Hawtrey does not make clear why high interest rates any more than various other factors should be the signal for a retrogressive trade movement. His explanation, as quoted above, is that the rise in the rate of interest increases the cost of holding stocks of commodities, and dealers accordingly proceed to reduce their stocks, and so on. But if it is the increased cost of holding stocks of commodities that brings rising prosperity to a halt, why could not the check come as well from other sources as from high interest rates? Why not say that the rising prices characteristic of good times increase the cost of holding stocks of commodities, and dealers accordingly reduce their stocks by giving fewer orders to producers? The same would be true of other costs of operation such as rent and wages. Why should not a rise in them cause an increase in the cost of holding goods and hence cause a reduction in stocks of goods?

Hawtrey's theory does not explain why sometimes there are trade depressions preceded by a low rate of interest nor why active trade often continues for a long time even although the rate of interest is high. These phenomena can be explained only when one seeks out the sources of prosperity. It is well known that during good times there is an increased demand for goods; during bad times there is a lessened demand. To understand prosperity it is necessary to determine the source of this extra demand. To account for depression it is necessary to explain why this extra demand for goods is checked. Hawtrey gets very near to the explanation of good and bad trade when he says, speaking of the investment of savings (p. 206):

> The effective demand for fixed capital is very high when trade is good and very low when trade is bad, and the consequences are to be seen both in the high unemployment rates in the industries during periods of depression and the high prices which rule in them during periods of activity.

If the above sentence is amended to read: "*Because* the effective demand for fixed capital is very high, trade is good; and *because* the effective demand for fixed capital is very low, trade is bad,"[1] the ultimate cause of depression in trade is reached only when

[1] See Taylor, *Credit System;* Mitchell, *Business Cycles;* Tougan-Baranowsky, *Les Crises Industrielles en Angleterre.*

the answer is given to the question, What stops the investment of savings which constitutes the demand for fixed capital? The exhaustion of loanable funds, evidenced by a high rate of interest, is often approached because of the rapid and world-wide promotion of new enterprises. In such a case, investment must stop until new savings are accumulated, and the check to good trade might well be, as Hawtrey says, the high rate of interest. But there are other checks to investment that have nothing to do with the rate of interest. Investment may stop because investors have assumed all the risks they wish to take, for new enterprises are necessarily uncertain in outcome; investment may be checked by untoward events such as war, crop failures, strikes, and so on, but more particularly by signs of unsoundness in business evidenced by the increasing number of failures in business. In fact, anything that causes distrust in the future course of enterprise will check investment and hence cause trade depression.

Hawtrey's work is logical and scholarly but can hardly be considered to throw new light on the subject of trade fluctuations.

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The Cause of Business Depressions. As Disclosed by an Analysis of the Basic Principles of Economics. By HUGO BILGRAM in collaboration with LOUIS EDWARD LEVY. (Philadelphia: J. B. Lippincott Company. 1914. Pp. xvii, 531. $2.00.)

In this book the collaborators present not merely the cause of business depressions but a critical analysis of current economic theory. In tracing the chain of events which result in periodic business disturbances it is found necessary to probe deeply into the fundamental principles of economics. This book outlines in a clear, succinct, interesting way some of the most complex theories of economics, and is designed for the business man and general reader as well as the trained economist.

The book is divided into four parts. Part I deals with definitions, the theory of value, and the volume theory of money. Part II discusses the apportionment of the national income. Part III describes the effect of monopoly on the distribution of wealth, and especially the effect of an impersonal monopoly of money on pure interest. Part IV is devoted to a new plan for currency reform. In this part of the book the authors explain at considerable length the application of their currency reform plan to many of the